

Beverage Container Recycling Program

Workshop on Processing Payment Emergency Rulemaking

Monday, October 9, 2017, 1 PM
Coastal Hearing Room, 1001 I St., Sacramento

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Necessity for Emergency Regulations

- Economic conditions:
 - Worldwide, scrap values for beverage container material and most other scrap commodities have been low. Scrap values may fall further.
 - Cost-saving efforts in the recycling industry lower the statewide average cost of recycling. As the average cost falls, processing payments are reduced.
 - Losses in scrap-related industries are reflected in the reasonable financial return, which also leads to lower processing payments.
 - The beverage industry has been using more PET (which has a lower scrap value) and less aluminum (which has a higher scrap value), possibly reducing consumer demand for redemption opportunities, since many centers pay extra for valuable materials.
- The recent legislative session ended without any measures enacted to alter the economics for the state's recycling industry.
- The department is moving forward to propose, via emergency regulations, a higher reasonable financial return than would result under current law.

Reasonable Financial Return (RFR)

- An RFR is established annually every January 1.
 - Under current regulations, RFR is based on an industrywide “return on cost” value provided by Dunn and Bradstreet.
- The RFR impacts the processing payment, a subsidy provided to certified recycling programs for handling beverage container materials for which the cost of recycling exceeds the market value.
- The RFR is applied as a percentage to the cost of recycling used to determine the processing payment.

$$\text{Processing Payment} = \text{Cost of Recycling} \times (1 + \text{RFR}) \times (1 + \text{COLA}) - \text{Scrap Value}$$

Goals

- Maintain a marketplace where it is profitable to establish sufficient recycling centers and locations that provide consumers with convenient recycling and redemption opportunities.
- Support recycling and allow the industry and the department to be more effective, fair, beneficial, and convenient.
- Mitigate higher costs of operating recycling centers in rural areas.
- Balance impacts and costs to the Fund.

Reassessing the Reasonable Financial Return

- The 2016 RFR was 0.94%.
- The 2017 RFR was -5.85%.
 - Due to overall depressed recycling market and low scrap values.
- The 2018 RFR, if calculated according to the current regulations, could again be low resulting in possibly further cost-cutting measures and undermining convenient opportunities for redemption of beverage containers by consumers who want to redeem.

Proposal

- Under emergency rulemaking authority, the proposed change will be effective for one year.
 - Unless non-emergency rulemaking or a statutory change occurs, in 2019, the RFR *calculation* will revert to what is has been.
- Establish an RFR for 2018 and provide a separate, higher RFR for rural recycling centers to address the lack of convenience and higher costs in rural areas.
 - 6.4% RFR for all certified recycling programs, except...
 - 11.5% RFR for recycling centers located in rural areas
- This change will help support beverage container recycling in California.

Proposal

- The percentages reflect, in part, recent and expected state minimum wage increases that would otherwise not be captured until the department's next periodic survey of recycling center costs.
 - Specifically, values are built on *base RFR rates* that the department adjusted to account for the minimum wage increase.
 - From a base RFR of 5% and an RFR of 10% for rural recycling centers, the department calculated:
$$(100\% + \text{base RFR}) \times (100\% + \text{expected growth in labor costs}) - 100\%.$$

Proposed Changes to the Text

§ 2975. Reasonable Financial Return Calculation

(a) The statewide average reasonable financial return for recycling centers shall be equal to the statewide average allowable costs calculated in section 2960 of this subchapter, multiplied by the average return on costs for the scrap and waste materials industry as determined from data contained in the most recent Dun and Bradstreet Standard Three Year Norm Report (Published by Dun and Bradstreet Credit Services).

(b) Notwithstanding paragraph (a), for the period of January 1, 2018 to December 31, 2018, the reasonable financial return shall be calculated as follows:

(1) The reasonable financial return shall be equal to six and four-tenths percent (6.4%) of the statewide average allowable costs calculated in section 2960 of this subchapter, except as follows:

(A) The reasonable financial return for recycling centers located in rural regions, as defined by Public Resources Code Section 14571(b)(2)(A), shall be equal to eleven and one half percent (11.5%) of the statewide average allowable costs calculated in section 2960 of this subchapter.

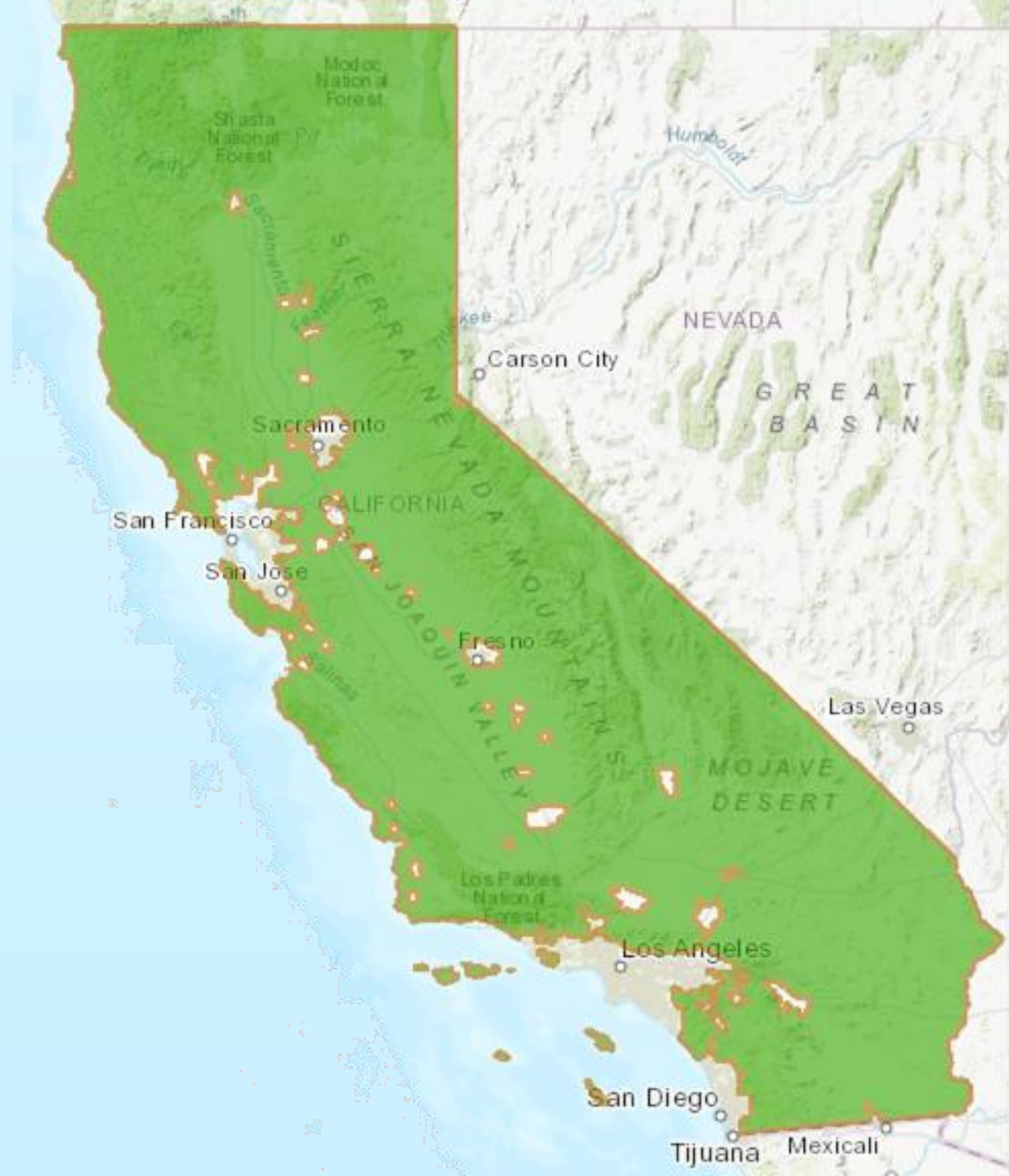
Rural Regions

- Defined in CCR § 2000 (41.1):
 - “Rural Region” means a non-urban area identified by the Division on an annual basis using Farmers Home Administration criteria. Areas include, but are not limited to, places, open country, cities, towns, or census designated places with populations less than 10,000. Areas with populations between 10,000 and 50,000 may be designated as rural unless identified as part of, or associated with, urban areas, as determined by the Department on a case by case basis.

Rural Region Map

300 recycling centers currently operational in rural regions comprise about 18% of all recycling centers statewide.

Rural recycling centers handle about 6% beverage container volume of all certified recycling programs statewide.



Estimated Fiscal Impact Compared to Current Law

6.4% RFR (and 11.5% for rural)

Processing Payment

\$6.3 million increase to certified recycling programs

\$0.7 million increase to rural recycling centers

\$7.0 million total increase

Processing Fee

\$1.6 million increase in revenue from beverage manufacturers

Processing Fee Offset

\$5.9 million increase in transfers from BCRF to processing fee accounts

Note: these are based on the department's estimate of the average cost of recycling and scrap values that will determine rates in January of 2018, recycling rates, container-per-pound rates, and other factors. Many of these factors may change, which would change the results.

Alternatives the Department is Considering for Discussion Purposes

The department is considering two *alternative* sets of values for the RFR, as defined in § 2975 (b)(1) and § 2975 (b)(1)(A):

Alternative 1:

- For all other recycling programs other than rural recycling centers: **11.5%**.
- For rural recycling centers: **16.6%**.

Alternative 2:

- For all other recycling programs other than rural recycling centers: **6.4%**.
- For rural recycling centers: **21.6%**.

Estimated Fiscal Impact Compared to Current Law

Alternative 1: 11.5% RFR (and 16.6% for rural)

Processing Payment

\$11.6 million increase to certified recycling programs

\$ 1.1 million increase to rural recycling centers

\$12.7 million total increase

Processing Fee

\$2.5 million increase in revenue from beverage manufacturers

Processing Fee Offset

\$10.8 million increase in transfers from BCRF to processing fee accounts

Note: these are based on the department's estimate of the average cost of recycling and scrap values that will determine rates in January of 2018, recycling rates, container-per-pound rates, and other factors. Many of these factors may change, which would change the results.

Estimated Fiscal Impact Compared to Current Law

Alternative 2: 6.4% RFR (and 21.6% for rural)

Processing Payment

\$6.3 million increase to certified recycling programs

\$1.4 million increase to rural recycling centers

\$7.7 million total increase

Processing Fee

\$1.7 million increase in revenue from beverage manufacturers

Processing Fee Offset

\$6.5 million increase in transfers from BCRF to processing fee accounts

Note: these are based on the department's estimate of the average cost of recycling and scrap values that will determine rates in January of 2018, recycling rates, container-per-pound rates, and other factors. Many of these factors may change, which would change the results.

Summary of Proposal and Alternatives

The proposed RFR:

- 6.4% RFR (and 11.5% for rural).
- \$7.0 million estimated increase in processing payment.
- Approximately \$194/month average additional processing payment to rural RCs.
- Approximately \$368/month average additional processing payment to other programs.

Alternative 1:

- 11.5% RFR (and 16.6% for rural).
- \$12.7 million estimated increase in processing payment.
- Approximately \$305/month average additional processing payment to rural RCs.
- Approximately \$677/month average additional processing payment to other programs.

Alternative 2:

- 6.4% RFR (and 21.6% for rural).
- \$7.7 million estimated increase in processing payment.
- Approximately \$389/month average additional processing payment to rural RCs.
- Approximately \$368/month average additional processing payment to other programs.

You May Give Feedback Now or by Email

The department specifically seeks feedback from beverage consumers, industry, and other stakeholders on the impacts of different RFR rates on the viabilities of businesses and on the convenience of redemption opportunities. For example, **would the proposed changes to the RFR influence closure decisions or change convenience in your area? And what information do you base your views on?**

Please send your thoughts or information to DORRegulations@calrecycle.ca.gov by **October 13, 2017**.

The department plans to adopt these emergency regulations by December 2017. A public comment period will be held during the formal emergency rulemaking process.